

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**

**DOCKET NO.**\_\_\_\_\_

In Re: Petition of South Carolina	)	
Electric & Gas for	)	
Authorization to Engage	)	PETITION
In the Temporary Hedging of	)	
Natural Gas Supplies	)	
	)	
_____	)	

Pursuant to S.C. Code Ann. § 58-5-210 *et seq.* (1976 & Supp. 2005) and 26 S.C. Code Ann. Reg. 103-834 (Supp. 2005), South Carolina Electric & Gas Company (the "Company" or "SCE&G") hereby petitions the Public Service Commission of South Carolina (the "Commission") for an Order authorizing SCE&G to enter into contracts, swaps and other financial instruments for the hedging of natural gas supplies ("hedges" or "hedging"), and to include financial gains, losses and costs of the program in SCE&G's calculation of gas supply costs. Specifically, SCE&G seeks approval to implement a hedging program as a temporary bridge under the same terms and conditions as approved by the Commission for South Carolina Pipeline Corporation ("SCPC") in Order No. 95-1253 and subsequent orders, including Order No. 2006-331. This temporary bridge is requested to cover the period between the anticipated date of SCPC's transition to Federal jurisdiction (currently estimated to be October 1, 2006) and until the

Commission issues its final order in the upcoming Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric and Gas Company, Docket No. 2006-5-G (the “2006 PGA”).

The Office of Regulatory Staff has reviewed this Petition and has no objection to the relief requested and the entry of an order embodying its terms.

In support of this Petition, SCE&G shows the Commission the following:

1. SCE&G’s general offices are at 1426 Main Street, Columbia, South Carolina, and its mailing address is:

South Carolina Electric & Gas Company  
1426 Main Street, Mail Code 130  
Columbia, South Carolina 29201

2. The name and address of petitioner’s attorneys are:

Patricia Banks Morrison, Esquire  
South Carolina Electric & Gas Company  
1426 Main Street, Mail Code 130  
Columbia, South Carolina 29201  
Phone: 803-217-7880

Belton T. Zeigler, Esquire  
John P. Boyd, Esquire  
Haynsworth Sinkler Boyd, P.A.  
Post Office Box 11889  
1201 Main Street, 22<sup>nd</sup> Floor  
Columbia, SC 29211-1889  
Phone: 803-779-3080

3. Copies of all pleadings, orders or correspondence in this proceeding should be served upon the attorneys listed above.
4. SCE&G is a natural gas distribution and electric utility that is engaged in the distribution and sale of natural gas to the public for compensation in 34 counties in

the central and southern areas of South Carolina. SCE&G's natural gas distribution operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. § 58-5-210 *et seq.* (1976 & Supp. 2005).

5. SCE&G currently purchases its natural gas supplies from SCPC, an intrastate natural gas supplier that provides SCE&G with bundled commodity and transportation services subject to rate regulation by this Commission. Sales to SCE&G represent a majority of SCPC's total firm sales.
6. Pursuant to Order No. 95-1253 of this Commission and subsequent orders, SCPC is authorized to hedge up to 75% of its firm gas supply on behalf of its customers including SCE&G to mitigate the impact of price volatility of gas supplies for customers.
7. By Order 116 FERC ¶ 61,049, dated July 20, 2006 (the "FERC Order"), the Federal Energy Regulatory Commission ("FERC") authorized SCPC to merge its system with SCG Pipeline, Inc. ("SCG"), a contiguous interstate pipeline, to create a single, integrated interstate pipeline operated under FERC jurisdiction (the "Merger"). The effective date of the Merger is anticipated to be on or after October 1, 2006.
8. After the effective date of the Merger, and pursuant to FERC policy, SCPC will no longer provide gas supply services to its customers. When SCPC ceases to purchase gas for resale, it will not be able to hedge gas supplies on behalf of its customers without engaging in commodity speculation.
9. On May 19, 2006, prior to issuance of the FERC Order, SCPC petitioned the Commission in Docket No. 2006-144-G for authorization to continue to hedge up to

75% of SCE&G's average firm requirements for natural gas until the effective date of the Merger. SCPC asked for this authorization with the provision that all financial gains, losses and costs of such hedging programs would be recognized by SCE&G in SCE&G's gas cost calculations, and that hedging contracts with maturities after the date of the merger would be transferred to SCE&G. SCE&G joined in the request. In Order No. 2006-331, the Commission granted SCPC and SCE&G the relief requested.

10. As of the effective date of the Merger, as anticipated in Order No. 2006-331, SCPC will cease all hedging activities, and SCE&G will have to undertake any subsequent hedging of SCE&G's gas volumes in its own name. Accordingly, SCE&G hereby seeks authorization to implement a temporary hedging program, as of the effective date of the Merger, under the same terms and conditions as approved by the Commission for SCPC in Order No. 95-1253 and subsequent orders, including Order No. 2006-331.

11. In the 2006 PGA, SCE&G intends to present testimony concerning future hedging models that might be suitable for SCE&G and concerning the option of proceeding with no hedging program at all. SCE&G seeks this authorization solely as a temporary bridge until the Commission issues its final order in the 2006 PGA.

12. SCE&G's administration of the temporary hedging program requested in this docket and SCE&G's compliance with the terms of the Order requested here would be subject to review in future Purchased Gas Adjustment proceedings.

13. In making this request, SCE&G specifically represents that:

a. SCE&G would use the same hedging programs, models, targets, triggers,

strategies, software and parameters as are currently used by SCPC;

- b. SCE&G would continue to hedge up to 75% of its average firm supply, computed by averaging the firm demands of the past three years, as SCPC is currently authorized by Order No. 2006-331; and
  - c. The contracts, positions and hedges entered into by SCPC and transferred to SCE&G pursuant to Order No. 2006-331 would be fully recognized and taken into account in SCE&G's administration of the hedging program in its name.
14. No substantive changes to the SCPC hedging program or its administration are anticipated as a result of the requested Order apart from the change in the entity on whose behalf it is conducted.
15. The issuance of the requested Order will not involve a change to any of SCE&G's rates, rate structure or overall rate of return, or of any Commission rule, regulation or policy.
16. Section 58-5-240(G) (Supp. 2005) of the South Carolina Code of Laws Annotated, allows the Commission to issue the requested Order without hearing.
17. Based on the nature of the relief being requested, which is a continuation of a hedging program previously approved in SCPC's name, SCE&G submits that no public notice of the Petition is required in addition to that provided by the Commission noticing the docketing of the matter and in placing it on the Commission's agenda for consideration.
18. SCE&G respectfully requests that this Commission: (i) conclude that the relief

requested in the Petition should be granted as filed; (ii) determine that a hearing is not required pursuant to S.C. Code Ann. § 58-5-240(G) (Supp. 2005); (iii) authorize SCE&G to commence operating the hedging program described above in its own name as of the later of October 1, 2006 or the effective date of the SCPC/SCG merger; (iv) authorize the inclusion of financial gains, losses and costs of the program in SCE&G's calculation of gas supply costs; and (v) grant such other and further relief as this Commission may deem just and proper.

WHEREFORE, SCE&G prays that, pursuant to S.C. Code Ann. § 58-5-210 (1976 & Supp. 2005), this Commission issue an Order as requested hereinabove.

Respectfully submitted, this 18th day of August, 2006.

Patricia Banks Morrison, Esquire  
South Carolina Electric & Gas Company  
1426 Main Street, Mail Code 130  
Columbia, South Carolina 29201

s/Belton T. Zeigler

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**Attorneys for Petitioner  
South Carolina Electric & Gas Company**



Commission issues its final order in the upcoming Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric and Gas Company, Docket No. 2006-5-G (the “2006 PGA”).

The Commission finds, as set forth in the Petition, that SCE&G currently purchases its natural gas supplies from SCPC, an intrastate natural gas supplier. SCPC provides SCE&G with bundled commodity and transportation service for its firm requirements. Currently, the rates, terms and conditions of SCPC’s service to its firm customers, as an intrastate supplier, are regulated by this Commission pursuant to Chapter 5 of Title 58 of the Code of Laws of South Carolina Annotated.

Pursuant to Order No. 95-1253 of this Commission and subsequent orders, SCPC is authorized to hedge where appropriate a substantial portion of its firm gas supply on behalf of its firm customers, including SCE&G, to reduce price volatility of gas supplies. Prior to Order No. 2006-331, most of the costs and benefits of SCPC’s hedging activities flowed through to SCE&G and SCE&G’s customers since SCE&G represents the majority of SCPC’s total firm sales.

By Order 116 FERC ¶ 61,049, dated July 20, 2006 (the “FERC Order”), the Federal Energy Regulatory Commission (“FERC”) has authorized SCPC to merge its system with a contiguous interstate pipeline SCG Pipeline, Inc., to create a new integrated pipeline (the “Merger”). The effective date of the Merger is anticipated to be October 1, 2006 or thereafter. Under established FERC policies, after the effective date of the Merger, SCPC will no longer provide gas supply services to its customers. Once SCPC ceases to purchase gas supplies for its customers, it will not be able to hedge gas

supplies on their behalf without engaging in commodity speculation.

On May 19, 2006, prior to the issuance of the FERC Order, SCPC petitioned the Commission for authorization to continue to hedge up to 75% of SCE&G's average monthly firm requirements for natural gas until the effective date of the Merger. SCPC asked for this authorization with the provision that all financial gains, losses and costs of such hedging programs would be recognized by SCE&G in SCE&G's gas cost calculations, and that hedging contracts with maturities after the effective date of the merger would be transferred to SCE&G. SCE&G joined in the request which the Commission granted in Order No. 2006-331.

Upon the effective date of the Merger, any hedging on SCE&G's behalf will have to be conducted by SCE&G. Accordingly, in this docket, SCE&G asks the Commission for temporary authorization, as of the effective date of the Merger, to continue hedging up to 75% of its firm gas supplies by carrying forward the same hedging program that SCPC is currently conducting on SCE&G's behalf. SCE&G seeks this authorization solely as a temporary bridge until the Commission issues its final order in the 2006 PGA. SCE&G represents in its Petition that in the 2006 PGA SCE&G will present testimony concerning future hedging models that might be suitable for SCE&G and concerning the option of proceeding with no hedging program at all. In the 2006 PGA, SCE&G will seek an order from the Commission approving the hedging program, if any, SCE&G should implement as it purchases gas supplies in its own name in national markets.

SCE&G seeks approval to implement a hedging program as a temporary bridge under the same terms and conditions as approved by the Commission for SCPC in Order

No. 95-1253 and subsequent orders, including Order No. 2006-331. Pursuant to its request,

- a. SCE&G would use the same hedging programs, models, targets, triggers, strategies, software and parameters as are currently used by SCPC;
- b. SCE&G would continue to hedge up to 75% of its average firm monthly demand, computed by averaging the firm demands of the past three years, as is currently authorized by Order No. 2006-331; and
- c. The contracts, position and hedges entered into by SCPC and transferred to SCE&G pursuant to Order No. 2006-331 would be fully recognized and taken into account in SCE&G's administration of the hedging program in its name.

SCE&G states in its Petition that apart from the change of the party on whose behalf the program is administered, no substantive changes to the SCPC hedging program or its administration are anticipated as a result of the requested Order. SCE&G's administration of the requested hedging program and compliance with the terms of the requested Order will be subject to review in future Purchased Gas Adjustment proceedings.

As indicated in the Petition, the Office of Regulatory Staff has no objection to the relief requested in the Petition and the entry of an order embodying its terms.

Having reviewed the Petition in this matter, the Commission finds that the issuance of the requested Order will not involve a change to any of SCE&G's rates, rate structure or overall rate of return, or of any Commission rule, regulation or

policy. Therefore, Section 58-5-240(G) (Supp. 2005) of the South Carolina Code of Laws Annotated allows the Commission to issue the requested Order without hearing. The Commission has further determined, based on the nature of the relief being requested, that this is a continuation of a hedging program previously approved in SCPC's name, and, therefore, no public notice of the Petition is required in addition to that provided by the Commission in noticing the docketing and the matter and in placing it on the Commission's agenda for consideration.

The Commission has examined the Petition and the orders and dockets cited therein and has concluded for the reasons set forth in the Petition, that the relief requested in the Petition should be granted as filed.

**WHEREFORE IT IS ORDERED:**

1. That upon the effective date of the Merger, SCE&G be authorized to administer a hedging program and to enter into hedges, as defined above, in its own name and for its own account and to include financial gains, losses and costs of its hedging program in SCE&G's calculation of gas supply costs.
2. That SCE&G administer the hedging program hereby authorized under the same terms and conditions as approved by the Commission for SCPC in Order No. 95-1253 and subsequent orders, including Order No. 2006-331 and,
  - a. Use the same hedging programs, models, targets, triggers, strategies, software and parameters as are currently used by SCPC;
  - b. Hedge no more than 75% of its average firm monthly demand for a given month, computed by averaging the firm demands of the past three years, as

is currently authorized by Order No. 2006-331; and

- c. Fully account for the contracts, position and hedges entered into by SCPC and transferred to SCE&G pursuant to Order No. 2006-331 in administration of the hedging program authorized herein.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

\_\_\_\_\_  
G. O'Neal Hamilton, Chairman

ATTEST:

\_\_\_\_\_  
C. Robert Mosley, Vice Chairman

(SEAL)

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**CERTIFICATE OF SERVICE**

I, the undersigned employee of Haynsworth Sinkler Boyd, P.A., do hereby certify that I have caused the foregoing to be served via hand delivery, to all parties of record at the addresses shown below.

***Document(s):***                      Petition of South Carolina Electric & Gas for Authorization to Engage In the Temporary Hedging of Natural Gas Supplies

***Parties of Record***

Shannon B. Hudson, Esquire  
Office of Regulatory Staff  
1441 Main Street, Suite 300  
Columbia, South Carolina 29201

**HAYNSWORTH SINKLER BOYD, P.A.**

By: s/Margaret A. McClintock  
Margaret A. McClintock  
Paralegal

Date: August 18, 2006